

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of River Rouge, Michigan</u>	County <u>Wayne</u>
Audit Date <u>June 30, 2004</u>	Opinion Date <u>December 10, 2004</u>	Date Accountant Report Submitted To State: <u>December 30, 2004</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name):			
Street Address <u>2990 W. Grand Blvd, Suite 310</u>	City <u>Detroit</u>	State <u>MI</u>	ZIP <u>48202</u>
Accountant Signature <u>Alan L. Young; Assoc.</u>			

City of River Rouge, Michigan

**Financial Report
with Additional Information
June 30, 2004**

City of River Rouge, Michigan

Contents

Report Letter	1-2
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General Purpose Financial Statements

Combined Balance Sheet - All Fund Types, Account Groups, and Component Units	3-6
Combined Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) - All Governmental Fund Types and Component Units	7
Combined Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) - Budget and Actual - General and Special Revenue Fund Types	8-9
Combined Statement of Revenue, Expenses, and Changes in Retained Earnings - Enterprise Fund - Water and Sewer	10
Statement of Cash Flows - Enterprise Fund - Water and Sewer	11
Statement of Changes in Plan Net Assets - Pension Trust Funds	12
Combining Balance Sheet - Component Units	13
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Component Units	14
Notes to Financial Statements	15-38

Additional Information

Retirement System Required Supplementary Information:	
Policemen and Firemen Retirement System:	
Schedule of Funding Progress	39
Schedule of Employer Contributions	39
General Employees' Retirement System:	
Schedule of Funding Progress	40
Schedule of Employer Contributions	40
General Fund Schedule of Expenditures - Budget and Actual	41
Special Revenue Funds:	
Combining Balance Sheet	42-43
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit)	44-45

City of River Rouge, Michigan

Contents (Continued)

Additional Information (Continued)

Trust and Agency Funds - Combining Balance Sheet	46
Trust Funds - Pension Retirement Systems:	
Combining Balance Sheet	47
Combining Statement of Changes in Plan Net Assets	48
Schedule of Bonded Indebtedness	49-56

**Alan C.
Young & Associates, P.C.**
CERTIFIED PUBLIC ACCOUNTANTS

HEADQUARTERS:

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Independent Auditor's Report

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To the Honorable Mayor and
Members of the City Council
City of River Rouge, Michigan

We have audited the accompanying general purpose financial statements of the City of River Rouge, Michigan as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the City of River Rouge, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The accompanying general purpose financial statements do not present government-wide financial statements to display the financial position and changes in financial position of its governmental activities, business-type activities, and discretely presented component units. In addition, the combining component unit information presents only modified accrual information. Furthermore, the City has not followed the formatting of separately reporting its governmental funds (including major funds), proprietary funds (including major Enterprise Funds), and fiduciary funds. The City has continued to report information by fund type and account group; the General Fixed Assets Account Group excludes general infrastructure assets and accumulated depreciation. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements and full accrual information for the combining component unit statements. Further, accounting principles require separate fund-based reporting of its governmental funds (including major funds), proprietary funds (including major Enterprise Funds), and fiduciary funds. In addition, accounting principles require the general fixed asset data to include general infrastructure assets, and the accumulation of depreciation of general fixed assets over their estimated useful lives. The amounts that would be reported in government-wide financial statements for the City's governmental activities, business-type activities, and discretely presented component units (including the full accrual combining component unit data), as well as the amounts of general infrastructure assets and general fixed assets accumulated depreciation, are not reasonably determinable.

To the Honorable Mayor and
Members of the City Council
City of River Rouge, Michigan

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the general purpose financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of River Rouge, Michigan as of June 30, 2004 or the changes in its financial position or its cash flows, where applicable, for the year then ended.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2004 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying general purpose financial statements also do not include a management's discussion and analysis (which would present an analysis of the financial performance for the year) or budgetary comparison schedules with original appropriations for the General Fund and each major Special Revenue Fund. The Governmental Accounting Standards Board has determined that these are necessary to supplement, although are not required to be a part of, the financial statements.

The accompanying general purpose financial statements have been prepared assuming that the City will continue as a going concern. As discussed in Note 17 to the financial statements, the City has suffered recurring operating deficits and has a significant unreserved, undesignated fund deficit in the General Fund that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 17. The general purpose financial statements do not include any adjustment that might result from the outcome of this uncertainty.

Alan C. Young, Assoc.

December 10, 2004

City of River Rouge, Michigan

	Governmental Fund Types		
	General	Special Revenue	Debt Service
Assets			
Cash and cash equivalents (Note 2)	\$ 1,188,764	\$ -	\$ 2,590,700
Marketable securities (Note 2)	-	-	-
Receivables:			
Taxes	370,641	-	-
Customers	-	-	-
Other	25,543	-	-
Due from other governmental units	596,559	303,881	-
Due from other funds (Note 3)	3,517,181	1,078,827	-
Due from primary government	-	-	-
Prepaid expenditures and deposits	406,286	-	-
Restricted assets (Note 4)	-	-	-
Land, buildings, and equipment (Note 5)	-	-	-
Amount to be provided for retirement of general long-term debt	-	-	-
Total assets	<u>\$ 6,104,974</u>	<u>\$ 1,382,708</u>	<u>\$ 2,590,700</u>

Combined Balance Sheet
All Fund Types, Account Groups, and Component Units
June 30, 2004

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total Primary Government (Memorandum Only)	Component Units
Enterprise - Water and Sewer	Trust and Agency	General Fixed Assets	General Long-term Debt		
\$ -	\$ 1,954,617	\$ -	\$ -	\$ 5,734,081	\$ 122,101
-	37,243,620	-	-	37,243,620	-
54,377	-	-	-	425,018	-
1,926,213	-	-	-	1,926,213	-
-	93,283	-	-	118,826	81,892
77,043	-	-	-	977,483	-
-	462,570	-	-	5,058,578	-
-	-	-	-	-	111,558
66,354	-	-	-	472,640	-
5,170,986	-	-	-	5,170,986	-
42,450,431	-	14,548,079	-	56,998,510	-
-	-	-	8,359,143	8,359,143	110,765
<u>\$ 49,745,404</u>	<u>\$ 39,754,090</u>	<u>\$ 14,548,079</u>	<u>\$ 8,359,143</u>	<u>\$ 122,485,098</u>	<u>\$ 426,316</u>

City of River Rouge, Michigan

	Governmental Fund Types		
	General	Special Revenue	Debt Service
Liabilities and Fund Equity (Deficit)			
Liabilities			
Vouchers payable	\$ 1,089,385	\$ 300,961	\$ -
Due to other governmental units	4,664,530	-	-
Due to other funds (Note 3)	1,511,327	277,817	2,590,700
Due to component units	111,558	-	-
Accrued and other liabilities	710,496	-	-
Deferred revenue	-	237,952	-
Long-term debt (Note 6)	-	-	-
Total liabilities	8,087,296	816,730	2,590,700
Contingencies (Note 12)	-	-	-
Fund Equity (Deficit)			
Investment in general fixed assets	-	-	-
Contributed capital (Note 14)	-	-	-
Retained earnings - Unreserved	-	-	-
Fund balances (deficit):			
Reserved (Note 15)	1,058,186	1,048,757	-
Unreserved - Undesignated	(3,040,508)	(482,779)	-
Total fund equity (deficit)	(1,982,322)	565,978	-
Total liabilities and fund equity (deficit)	<u>\$ 6,104,974</u>	<u>\$ 1,382,708</u>	<u>\$ 2,590,700</u>

Combined Balance Sheet
All Fund Types, Account Groups, and Component Units (Continued)
June 30, 2004

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total Primary Government (Memorandum Only)	Component Units
Enterprise - Water and Sewer	Trust and Agency	General Fixed Assets	General Long-term Debt		
\$ 1,640,582	\$ -	\$ -	\$ -	\$ 3,030,928	\$ -
-	9,376	-	-	4,673,906	-
651,900	26,834	-	-	5,058,578	-
-	-	-	-	111,558	-
199,387	98,010	-	-	1,007,893	7,094
-	-	-	-	237,952	-
20,613,506	-	-	8,359,143	28,972,649	110,765
23,105,375	134,220	-	8,359,143	43,093,464	117,859
-	-	-	-	-	-
-	-	14,548,079	-	14,548,079	-
12,953,674	-	-	-	12,953,674	-
13,686,355	-	-	-	13,686,355	-
-	39,619,870	-	-	41,726,813	168,904
-	-	-	-	(3,523,287)	139,553
26,640,029	39,619,870	14,548,079	-	79,391,634	308,457
\$ 49,745,404	\$ 39,754,090	\$ 14,548,079	\$ 8,359,143	\$ 122,485,098	\$ 426,316

City of River Rouge, Michigan

Combined Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) All Governmental Fund Types and Component Units Year Ended June 30, 2004

	General Fund	Special Revenue Fund	Debt Service Fund	Total Primary Government (Memorandum Only)	Component Units
Revenue					
Property taxes	\$ 8,917,814	\$ 1,419,378	\$ -	\$ 10,337,192	\$ 10,363
Licenses and permits	272,022	-	-	272,022	-
Federal sources	40,573	491,197	-	531,770	-
State sources	1,572,826	576,443	-	2,149,269	-
Charges for services	288,273	-	-	288,273	-
Fines and forfeitures	281,880	-	-	281,880	-
Interest	43,205	11,078	15,196	69,479	4,648
Other	192,511	121,959	-	314,470	254,205
Total revenue	11,609,104	2,620,055	15,196	14,244,355	269,216
Expenditures					
General government	2,562,902	-	-	2,562,902	-
Public safety	4,060,770	-	-	4,060,770	-
Public services	1,193,253	1,037,532	-	2,230,785	-
Street lighting	230,825	-	-	230,825	-
Culture and recreation	321,552	253,319	-	574,871	-
Drug enforcement	-	87,428	-	87,428	-
Highway and streets	-	641,013	-	641,013	-
Economic and community development	-	583,060	-	583,060	413,440
Other functions	5,300,247	-	-	5,300,247	-
Debt service	-	-	428,982	428,982	27,569
Total expenditures	13,669,549	2,602,352	428,982	16,700,883	441,009
Excess of Revenue Over (Under) Expenditures	(2,060,445)	17,703	(413,786)	(2,456,528)	(171,793)
Other Financing Sources (Uses)					
Operating transfers in	2,058,789	147,879	-	2,206,668	-
Operating transfers out	(48,321)	(99,558)	(2,058,789)	(2,206,668)	-
Operating transfers from primary government	-	-	-	-	67,449
Operating transfers to component unit	(67,449)	-	-	(67,449)	-
Total other financing sources (uses)	1,943,019	48,321	(2,058,789)	(67,449)	67,449
Net Change in Fund Balances (Deficit)	(117,426)	66,024	(2,472,575)	(2,523,977)	(104,344)
Fund Balances (Deficit) - July 1, 2003	(1,864,896)	499,954	2,472,575	1,107,633	412,801
Fund Balances (Deficit) - June 30, 2004	<u><u>\$ (1,982,322)</u></u>	<u><u>\$ 565,978</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (1,416,344)</u></u>	<u><u>\$ 308,457</u></u>

City of River Rouge, Michigan

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenue			
Property taxes	\$ 8,931,126	\$ 8,917,814	\$ (13,312)
Licenses and permits	279,200	272,022	(7,178)
Federal sources	27,330	40,573	13,243
State sources	1,568,855	1,572,826	3,971
Charges for services	329,500	288,273	(41,227)
Fines and forfeitures	290,000	281,880	(8,120)
Interest	65,000	43,205	(21,795)
Other revenue	1,141,874	192,511	(949,363)
Transfers from other funds	250,000	2,237,065	1,987,065
Total revenue	12,882,885	13,846,169	963,284
Expenditures			
General government	2,467,358	2,562,902	(95,544)
Public safety	3,884,504	4,060,770	(176,266)
Public services	1,300,931	1,371,529	(70,598)
Street lighting	231,225	230,825	400
Culture and recreation	305,712	321,552	(15,840)
Drug enforcement	-	-	-
Highways and streets	-	-	-
Other functions	5,232,855	5,300,247	(67,392)
Transfers to other funds	383,070	48,321	334,749
Transfers to component units	67,450	67,449	1
Community development	-	-	-
Total expenditures	13,873,105	13,963,595	(90,490)
Excess of Revenue Over (Under) Expenditures	(990,220)	(117,426)	872,794
Fund Balances (Deficit) - July 1, 2003	(1,864,896)	(1,864,896)	-
Fund Balances (Deficit) - June 30, 2004	<u>\$ (2,855,116)</u>	<u>\$ (1,982,322)</u>	<u>\$ 872,794</u>

**Combined Statement of Revenue, Expenditures, and
Changes in Fund Balances (Deficit) - Budget and Actual
General and Special Revenue Fund Types
Year Ended June 30, 2004**

Special Revenue Funds		
Budget	Actual	Variance Favorable (Unfavorable)
\$ 1,416,984	\$ 1,419,378	\$ 2,394
-	-	-
699,000	491,197	(207,803)
556,900	576,443	19,543
-	-	-
-	-	-
16,300	11,078	(5,222)
41,800	121,959	80,159
92,500	147,879	55,379
2,823,484	2,767,934	(55,550)
-	-	-
-	-	-
1,036,800	1,037,532	(732)
-	-	-
238,352	253,319	(14,967)
92,900	87,428	5,472
556,900	641,013	(84,113)
-	-	-
92,500	99,558	(7,058)
-	-	-
573,000	583,060	(10,060)
2,590,452	2,701,910	(111,458)
233,032	66,024	(167,008)
499,954	499,954	-
\$ 732,986	\$ 565,978	\$ (167,008)

City of River Rouge, Michigan

Combined Statement of Revenue, Expenses, and Changes in Retained Earnings - Enterprise Fund Water and Sewer Year Ended June 30, 2004

Operating Revenue - Customer billings	\$ 3,205,311
Operating Expenses	
Cost of water	486,813
Cost of sewage disposal	636,613
Water operations	369,566
Sewer operations	1,897,201
Depreciation	<u>960,333</u>
Total operating expenses	<u>4,350,526</u>
Operating Loss	(1,145,215)
Nonoperating Income (Expenses)	
Property taxes	1,659,858
Investment income	59,045
Federal sources	99,989
Proceeds from settlement of lawsuit	355,000
Miscellaneous expense	(110,373)
Interest expense	<u>(851,087)</u>
Total nonoperating income	<u>1,212,432</u>
Net Income	67,217
Retained Earnings - July 1, 2003	13,352,815
Add Depreciation on Contributed Capital	<u>266,323</u>
Retained Earnings - June 30, 2004	<u><u>\$ 13,686,355</u></u>

City of River Rouge, Michigan

Statement of Cash Flows Enterprise Fund - Water and Sewer Year Ended June 30, 2004

Cash Flows from Operating Activities

Operating loss	\$ (1,145,215)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	960,333
Changes in assets and liabilities:	
Customer receivables	(369,822)
Deposits	(66,354)
Due from other governmental units	(77,043)
Accounts payable	199,408
Accrued and other liabilities	37,863
Net cash used in operating activities	(460,830)

Cash Flows from Noncapital Financing Activities

Loan repayments to other funds	(320,079)
Federal sources	6,525
Disbursement of grants to subrecipients	(6,525)
Net cash used in noncapital financing activities	(320,079)

Cash Flows from Capital and Related Financing Activities

Principal and interest paid on long-term debt	(42,767)
Proceeds from property tax levy	2,714,712
Replenishment of reserves held at Wayne County	(2,849,035)
Federal sources	93,464
Federal expenditures	(103,848)
Purchase of capital assets	(96,225)
Proceeds from lawsuit	355,000
Net cash provided by capital and related financing activities	71,301

Cash Flows from Investing Activities - Interest received on investments 1,438

Net Decrease in Cash and Cash Equivalents (708,170)

Cash and Cash Equivalents - July 1, 2003 708,170

Cash and Cash Equivalents - June 30, 2004 \$ -

Noncash Investing, Capital, and Financing Activities - The balance of unpaid liabilities at the County decreased by approximately \$1,400,000. The County also paid approximately \$1,930,000 of bond and State Revolving Loan principal and interest payments related to the Downriver Sewage Improvement Project and the CSO Basin Sewer Line Improvement Project. Interest earned during the year on assets held at Wayne County related to both projects was approximately \$57,600.

City of River Rouge, Michigan

Statement of Changes in Plan Net Assets Pension Trust Funds Year Ended June 30, 2004

Additions

Investment income:	
Interest and dividends	\$ 985,358
Net appreciation in fair value of investments	4,513,783
Mortgage repayments and other	<u>42,418</u>
Net investment income	5,541,559
Contributions:	
Employer	1,298,144
Employees	<u>255,511</u>
Total additions	7,095,214

Deductions

Benefit payments	4,709,557
Administrative expenses	<u>417,832</u>
Total deductions	<u>5,127,389</u>

Net Increase in Net Assets Held in Trust for Pension Benefits 1,967,825

Net Assets Held in Trust for Pension Benefits

Beginning of year	<u>37,652,045</u>
End of year	<u><u>\$ 39,619,870</u></u>

City of River Rouge, Michigan

Combining Balance Sheet Component Units Year Ended June 30, 2004

	Economic Development Corporation	Downtown Development Authority	Total
Assets			
Cash and cash equivalents (Note 2)	\$ 122,101	\$ -	\$ 122,101
Loans receivable	20,279	-	20,279
Land contracts receivable	61,613	-	61,613
Due from primary government	65,233	46,325	111,558
Amount to be provided for long-term debt	<u>110,765</u>	<u>-</u>	<u>110,765</u>
Total assets	<u>\$ 379,991</u>	<u>\$ 46,325</u>	<u>\$ 426,316</u>
Liabilities and Fund Balances			
Liabilities			
Security deposits	\$ 7,094	\$ -	\$ 7,094
Long-term debt (Note 6)	<u>110,765</u>	<u>-</u>	<u>110,765</u>
Total liabilities	117,859	-	117,859
Fund Balances			
Reserved (Note 15)	122,579	46,325	168,904
Unreserved - Undesignated	<u>139,553</u>	<u>-</u>	<u>139,553</u>
Total fund balances	<u>262,132</u>	<u>46,325</u>	<u>308,457</u>
Total liabilities and fund balances	<u>\$ 379,991</u>	<u>\$ 46,325</u>	<u>\$ 426,316</u>

City of River Rouge, Michigan

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Component Units Year Ended June 30, 2004

	Economic Development Corporation	Downtown Development Authority	Total
Revenue			
Property taxes	\$ -	\$ 10,363	\$ 10,363
Rental income - Building	194,375	-	194,375
Rental income - Tower	17,940	-	17,940
Interest	4,648	-	4,648
Other	41,890	-	41,890
Total revenue	258,853	10,363	269,216
Expenditures			
Project and other expenses	57,535	66	57,601
Rental expenses	260,839	-	260,839
Loss on sale of real estate inventory	95,000	-	95,000
Debt service	27,569	-	27,569
Total expenditures	440,943	66	441,009
Excess of Revenue Over (Under) Expenditures	(182,090)	10,297	(171,793)
Other Financing Sources - Operating transfers from primary government	67,449	-	67,449
Net Change in Fund Balances	(114,641)	10,297	(104,344)
Fund Balances - July 1, 2003	376,773	36,028	412,801
Fund Balances - June 30, 2004	<u>\$ 262,132</u>	<u>\$ 46,325</u>	<u>\$ 308,457</u>

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2004

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of River Rouge, Michigan (the "City") do not conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The City has not modified its financial reporting to adopt Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. As such, the general purpose financial statements exclude the management's discussion and analysis, government-wide statement of net assets, and government-wide statement of activities. Furthermore, the City has not followed the formatting of separately reporting its governmental funds (including major funds), proprietary funds (including major Enterprise Funds), and fiduciary funds. The City has continued to report information by fund type and account group; the General Fixed Assets Account Group excludes general infrastructure assets and accumulated depreciation on general fixed assets.

The following is a summary of the significant accounting policies:

Reporting Entity

The City is governed by an elected mayor and a six-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of River Rouge and its component units. The individual component units discussed below are included in the City's reporting entity because of the significance of their operational and financial relationship with the City.

The Policemen and Firemen and General Employees' Retirement Systems have been blended into the City's financial statements. The systems are governed by five-member pension boards that include three individuals chosen by the mayor and City Council. The systems are reported as if part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the retirement systems. Additionally, the 26th District Court Division I Agency Fund has also been blended into the City's financial statements.

Discretely Presented Component Units

The following entities are reported within the component unit column in the combined financial statements. They are reported in a separate column to emphasize that they are legally separate from the City.

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

The Economic Development Corporation (the "EDC") was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The EDC's governing body, which consists of nine individuals, is selected by the City Council. A complete financial report can be obtained by contacting the City Clerk at 10600 W. Jefferson Avenue, River Rouge, Michigan 48218.

The Downtown Development Authority (the "DDA") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of 11 individuals, is appointed by the mayor with the approval of the City Council. In addition, the Authority's budget is subject to approval by the City Council. A separate financial report for the DDA is not available.

The City has excluded the Housing Commission from this report as a component unit because the City does not exercise substantial oversight responsibility. The Housing Commission financial statements have been issued under separate cover. The Housing Commission reimburses the City for all payroll expenditures, including pension contributions. The Housing Commission has outstanding liabilities to the General Fund in the amount of \$80,627 for payroll reimbursement.

Fund Accounting

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The various funds are grouped, in the combined financial statements in this report, into generic fund types in three broad fund categories as follows:

Governmental Funds

General Fund - The General Fund contains the records of the ordinary activities of the City that are not accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

Note 1 - Summary of Significant Accounting Policies (Continued)

Debt Service Fund - The Debt Service Fund is used to account for the proceeds of principal, interest, and expenses in connection with certain long-term debt other than debt payable from the operations of an Enterprise Fund.

Proprietary Fund

Enterprise Fund - The Enterprise Fund is used to account for the results of operations that provide a service to citizens that is financed primarily by a user charge for the provision of that service.

Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds. These include the Pension Retirement Systems Funds and the Agency Fund. The Pension Retirement Systems Funds are accounted for in the same manner as proprietary funds. The 26th District Court Division I Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Basis of Accounting

The accrual basis of accounting is used by the Enterprise Fund and the Pension Retirement Systems Funds. All governmental funds and the component units utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Property taxes and other revenue that are both measurable and available for use to finance operations of the City are recorded as revenue when earned. Other revenue is recorded when received.

Properties are assessed as of December 31 and the related property taxes are billed and become a lien on July 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls.

- b. Noncurrent receivables, such as long-term loans, are recorded at full value and fund balance is reserved for the portion not available for use to finance operations as of year end.
- c. Interest on bonded indebtedness and other long-term debt is not recorded as an expenditure until its due date.

Note 1 - Summary of Significant Accounting Policies (Continued)

- d. Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase.
- e. Normally, expenditures are not divided between years by the recording of prepaid expenses. The prepaid expenses recorded in the General Fund represent advance payments on various insurance policies.
- f. The noncurrent portion of accumulated sick and vacation days, unemployment, and self-insured liabilities is reflected in the General Long-term Debt Account Group.

Fixed Assets and Long-term Liabilities - Fixed assets used in governmental fund-type operations are accounted for in the General Fixed Assets Account Group, rather than in the governmental funds. Such assets, which are recorded as expenditures at the time of purchase, do not include certain improvements such as lighting systems. No depreciation has been provided on general fixed assets.

All fixed assets are recorded at cost or, if donated, at their estimated fair value on the date donated.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-term Debt Account Group, not in the governmental funds.

The General Fixed Assets Account Group and the General Long-term Debt Account Group are not funds and do not involve the measurement of results of operations.

Fixed assets and long-term liabilities relating to the Enterprise Fund are accounted for in that fund. Depreciation on such fixed assets is charged as an expense against the operations of the Enterprise Fund on a straight-line basis.

Cash Equivalents - For the purpose of the statement of cash flows, the proprietary fund considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments and Marketable Securities - Investments are reported at fair value, based on quoted market prices.

Significant Customers - The City has two significant customers, U.S. Steel Corporation and Detroit Edison Company that, when combined, represented approximately 53 percent of property tax revenue and 49 percent of water and sewage disposal revenue for the year ended June 30, 2004.

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the noted amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Memorandum-only Totals - The total data presented is the aggregate of the fund types and account groups and is presented for analysis purposes only. No consolidating or other eliminations were made in arriving at the totals; therefore, they do not present consolidated information.

Other accounting policies are disclosed in other notes to financial statements.

Note 2 - Deposits and Investments

The City's deposits and investments at June 30, 2004 are included on the balance sheet under the following classifications:

GASB Category 3	Balance Sheet Classification	
	Cash and Cash Equivalents	Marketable Securities
Deposits:		
General Fund	\$ 1,188,764	\$ -
Debt Service Fund	2,590,700	-
General Employees' Retirement System	409,368	-
Police and Fire Retirement System	1,463,708	-
Agency Fund	81,541	-
Investments	-	37,243,620
Total	<u>\$ 5,734,081</u>	<u>\$ 37,243,620</u>

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2004

Note 2 - Deposits and Investments (Continued)

Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$6,500,000. Of that amount, approximately \$450,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

The City is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies (of nonpension funds) in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles.

The General Employees' Retirement System and Policemen and Firemen Retirement System are authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain foreign and domestic state and local government obligations, and certain other specified investment vehicles.

The City's investments are categorized below to give an indication of the level of risk assumed by the entity at June 30, 2004. Risk Category 1 includes those investments that meet any of the following criteria:

- a. Insured
- b. Registered
- c. Held by the City or its agent

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the City's name. Category 3 includes investments held by:

- a. The counterparty
- b. The counterparty's trust department (or agent) but not in the City's name

All investments held by the City at June 30, 2004 are Category 2.

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2004

Note 2 - Deposits and Investments (Continued)

	Carrying Amount (Fair Value)
General Employees' Retirement System:	
U.S. government securities	\$ 2,699,840
Common stock	7,917,321
Corporate bonds	1,060,397
Policemen and Firemen Retirement System:	
U.S. government securities	2,714,414
Common stock	20,552,846
Corporate bonds	2,014,072
Foreign bonds	284,730
Total	<u>\$ 37,243,620</u>

Included in the City's retirement systems' investments at June 30, 2004 are approximately \$3,100,000 of collateralized mortgage obligations. These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

Component Units - The cash of the City's component units consists solely of bank deposits. The deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$138,000, which was fully covered by federal depository insurance.

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Interfund Receivables

The following are the interfund receivables at June 30, 2004:

General Fund:

Local Street Fund	\$ 36,829
District Court - Agency Fund	26,834
Community Development Block Grant Fund	210,918
Debt Service Fund	2,590,700
Enterprise Fund	<u>651,900</u> *
Total General Fund	3,517,181

Special Revenue Funds:

Refuse Fund - General Fund	669,560 *
Local Street Fund - Major Street Fund	30,070
Library Fund - General Fund	218,999 *
Drug Enforcement Fund - General Fund	<u>160,198</u> *
Total Special Revenue Funds	1,078,827

Fiduciary Funds:

Policemen and Firemen Retirement System Fund - General Fund	119,790
General Employees' Retirement System Fund - General Fund	<u>342,780</u>
Total Fiduciary Funds	<u>462,570</u>
Total interfund receivables	<u>\$ 5,058,578</u>

* These amounts are considered noncurrent and fund balance in the respective funds has been reserved accordingly.

Note 4 - Restricted Assets

Restricted assets at June 30, 2004 consist of assets totaling \$5,170,986 held at Wayne County for water and sewer line construction. The assets resulted from issuance of debt. Accordingly, retained earnings have not been reserved.

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets

A summary of changes in general fixed assets follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Land and improvements	\$ 2,897,473	\$ 127,159	\$ (77,545)	\$ 2,947,087
Buildings and structures	4,996,103	158,160	-	5,154,263
Pavement	2,489,212	-	-	2,489,212
Equipment	3,875,364	82,153	-	3,957,517
Total general fixed assets	<u>\$ 14,258,152</u>	<u>\$ 367,472</u>	<u>\$ (77,545)</u>	<u>\$ 14,548,079</u>

A summary of Enterprise Fund fixed assets at June 30, 2004 is as follows:

	Amount	Depreciable Life - Years
Land	\$ 150,378	-
Water and sewer mains and basins	46,343,314	50
Pumping station	1,530,802	3-50
Equipment and meters	968,170	5-15
Vehicles	355,877	4
Total cost	49,348,541	
Less accumulated depreciation	<u>(6,898,110)</u>	
Net carrying amount	<u>\$42,450,431</u>	

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2004

Note 6 - Long-term Debt

Outstanding Debt

The following is a summary of the debt outstanding of the City at June 30, 2004:

	Number of Issues	Interest Rate	Maturing Through	Principal Outstanding	
				Enterprise Fund	Long-term Debt
Lease obligations	1	7.00%	2006	\$ 85,591	\$ -
State Revolving Fund Loan - Downriver	12	2.00%-2.25%	2021	3,036,316	-
State Revolving Fund - Loan - CSO	1	2.25%	2018	4,581,599	-
Wayne County CSO Revenue Bonds	1	4.70%-5.375%	2017	12,910,000	-
Compensated absences (1)	-	-	-	-	1,322,893
Lawsuits and asserted claims (2)	-	-	-	-	335,000
Self-funded medical claims (3)	-	-	-	-	26,250
Fiscal stabilization bonds (4)	1	2.0%-5.00%	2032	-	6,675,000
Total long-term debt				<u>\$ 20,613,506</u>	<u>\$ 8,359,143</u>

(1) The accumulated employee benefits represent the estimated liability to be paid governmental fund-type employees under the City's sick and vacation pay policy, net of the portion that is estimated will be paid currently (which has been recorded as a liability in the General Fund). Under the City's policy, employees earn sick and vacation time based on time of service with the City.

(2) The lawsuits and asserted claims represent an estimate by City management and legal counsel of the City's probable liability as of June 30, 2004, in connection with certain lawsuits currently pending.

(3) The self-funded medical claims represent an estimate by City management of the City's probable liability as of June 30, 2004 in connection with certain medical claims currently pending.

(4) Pursuant to the terms and conditions of the fiscal stabilization bonds, the City's future state-shared revenue has been pledged in connection with this obligation.

Changes in Long-term Debt

The following is a summary of debt transactions of the City for the year ended June 30, 2004:

	General Obligations	Revenue Bonds	Total
Balance - July 1, 2003	\$ 16,534,676	\$ 13,535,000	\$ 30,069,676
Increase in lawsuits and asserted claims	185,000	-	185,000
Decrease in compensated absences and claims	51,278	-	51,278
Decrease in self-funded medical claims	(83,750)	-	(83,750)
Debt retired	(624,555)	(625,000)	(1,249,555)
Balance - June 30, 2004	<u>\$ 16,062,649</u>	<u>\$ 12,910,000</u>	<u>\$ 28,972,649</u>

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2004

Note 6 - Long-term Debt (Continued)

Debt Service Requirements

The annual requirements to service all debt outstanding as of June 30, 2004 (excluding capital leases, compensated absences, lawsuits, and asserted claims), including both principal and interest, are as follows:

Years Ending June 30	Debt Serviced Through		
	Governmental		Total
	Fund Resources	Proprietary Fund	
2005	\$ 426,383	\$ 1,917,662	\$ 2,344,045
2006	428,733	1,920,346	2,349,079
2007	425,830	1,919,576	2,345,406
2008	427,388	1,917,077	2,344,465
2009	428,323	1,916,413	2,344,736
Remaining years	10,147,221	17,655,121	27,802,342
Total	<u>\$ 12,283,878</u>	<u>\$ 27,246,195</u>	<u>\$ 39,530,073</u>

Capital Leases

Future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of June 30, 2004, are as follows:

Years Ending June 30	Proprietary Fund
2005	\$ 47,340
2006	47,340
Total minimum lease payments	94,680
Less amount representing interest	<u>(9,089)</u>
Present value of net minimum lease payments	<u>\$ 85,591</u>

Interest

Total interest incurred for the City for the year approximated \$1,150,000.

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2004

Note 6 - Long-term Debt (Continued)

Defeased Debt

In the prior year, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the general purpose financial statements. At June 30, 2004, \$600,000 of bonds outstanding are considered defeased.

No Commitment Debt

Excluded from the General Long-term Debt Account Group are bonds issued under the Industrial Development Revenue Bond Act of 1963, as amended, which authorizes municipalities to acquire and lease industrial sites, buildings, and equipment. Under terms of the leases, the lessees are required to make payments to the bond-paying agents equal to the bond principal and interest payments as they come due. These bonds are not a liability of the City since they are payable solely from the net revenue derived from the respective leases. After these bonds are issued, all financial activity is taken over by the paying agent.

The bonds and related lease contracts are not reflected in the City's financial statements. Information regarding the status of each bond issue, including possible default, must be obtained from the paying agent or other knowledgeable source.

Component Unit

Outstanding Debt

The following is a summary of the debt outstanding of the Economic Development Corporation of the City of River Rouge at June 30, 2004:

General Obligation Bonds	Balance July 1, 2003	Additions	Debt Retired	Balance June 30, 2004
Mortgage loan, issued in the amount of \$130,000. Payments of \$1,417, including interest at 10.25 percent, are due monthly, beginning March 15, 2000, with a final balloon payment due on February 15, 2005	\$ 116,124	\$ -	\$ (5,359)	\$ 110,765
Land contract agreement, issued in the amount of \$60,301. Payments of \$1,500, including interest at 8 percent, are due monthly, beginning on April 15, 2000, paid in full during the current year	11,582	-	(11,582)	-
Total long-term debt	\$ 127,706	\$ -	\$ (16,941)	\$ 110,765

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2004

Note 6 - Long-term Debt (Continued)

Debt Service Requirements

The annual requirement to service all debt outstanding as of June 30, 2004, including both principal and interest, is \$118,611 due during the year ending June 30, 2005.

Interest

Total interest incurred for the Economic Development Corporation for the year approximated \$10,600.

Note 7 - Budget Information

The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2004 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exceptions:

- Operating transfers has been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)."
- Reimbursements from other funds have been included in revenue, rather than as a reduction to expenditures.

The budget statement (combined statement of revenue, expenditures, and changes in fund balances (deficit) - budget and actual - General and Special Revenue Fund types) is presented on the same basis of accounting used in preparing the adopted budget. Following is a reconciliation of the budget statement to the operating statement (combined statement of revenue, expenditures, and changes in fund balances (deficit) - all governmental fund types and component units):

	General Fund		Special Revenue Funds	
	Total Revenue	Total Expenditures	Total Revenue	Total Expenditures
Amounts per operating statement	\$ 11,609,104	\$ 13,669,549	\$ 2,620,055	\$ 2,602,352
Operating transfers	2,058,789	115,770	147,879	99,558
Reimbursements from other funds recorded as revenue	<u>178,276</u>	<u>178,276</u>	<u>-</u>	<u>-</u>
Amounts per budget statement	<u>\$ 13,846,169</u>	<u>\$ 13,963,595</u>	<u>\$ 2,767,934</u>	<u>\$ 2,701,910</u>

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2004

Note 7 - Budget Information (Continued)

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of the General Fund expenditure budget as adopted by the City Council is included in the additional information and a comparison of actual results of the General Fund revenue budget is included in the general purpose financial statements. This comparison includes expenditure budget overruns. A comparison of actual results of operations to the Special Revenue Funds budget as adopted by the City Council is available at the clerk's office for inspection.

An overview of significant expenditure budget overruns is as follows:

	Budget	Actual
General Fund:		
General government	\$ 2,467,358	\$ 2,562,902
Public safety	3,884,504	4,060,770
Public services	1,300,931	1,371,529
Culture and recreation	305,712	321,552
Other functions	5,232,855	5,300,247
Special Revenue Funds:		
Culture and recreation	238,352	253,319
Highways and streets	556,900	641,013
Transfers to other funds	92,500	99,558
Community development	573,000	583,060

At June 30, 2004, the General Fund had a fund deficit of \$1,982,322. See Note 17 related to going concern.

At June 30, 2004, the Community Development Block Grant fund had a deficit of \$237,592. The deficit is the result of deferring federal grant revenue, for which grant reimbursements were not received within 60 days of year end. The deficit was eliminated through the receipt of reimbursement requests subsequent to year end.

Note 8 - Pension Plan

General Employees' Pension Plan

Plan Description - The General Employees' Pension Plan is a single-employer defined benefit pension plan that is administered by the City of River Rouge General Employees' Retirement System (the "System"); this plan covers most full-time general employees of the City hired prior to January 1, 1999. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2003, the date of the most recent actuarial valuation, membership consisted of 114 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 68 current active employees. The plan does not issue a separate financial report.

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the System for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 3 percent for General and Housing Local 1917 and 6.3 percent for all others. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Annual Pension Cost - For the year ended June 30, 2004, the City's annual pension cost of \$813,219 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2002, using the entry actual age cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return, (b) projected salary increases of 5.5 percent per year, and (c) .2 percent to 4.0 percent additional projected salary increases depending on age and seniority/merit. Both (a) and (b) include an inflation component of 5.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 13 years.

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2004

Note 8 - Pension Plan (Continued)

Reserves - As of June 30, 2004, the balances in the plan's reserves are as follows:

Legally required reserves - Employee contributions	\$ 1,654,848
Additional reserves:	
Reserve for retiree benefit payments	16,188,746
Reserve for employer contributions	<u>(5,422,203)</u>
Total reserves	<u>\$ 12,421,391</u>

Trend Information

	Fiscal Year Ended June 30		
	2002	2003	2004
Annual pension cost (APC)	\$ 590,228	\$ 624,012	\$ 813,219
Percent of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

As of June 30, 2004, \$342,779 of the pension contribution was in accounts payable. Of that amount, \$289,894 was paid in August 2004, while \$52,885 remains unpaid as of the date of this report.

Policemen and Firemen Retirement System

Plan Description - The Policemen and Firemen Retirement System is a single-employer defined benefit pension plan that is administered by the City of River Rouge Policemen and Firemen Retirement System; this plan covers certain police and fire employees of the City hired prior to January 1, 1999. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2003, the date of the most recent actuarial valuation, membership consisted of 92 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 42 current active employees. The plan does not issue a separate financial report.

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2004

Note 8 - Pension Plan (Continued)

The obligation to contribute to and maintain the System for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 5 percent. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Annual Pension Cost - For the year ended June 30, 2004, the City's annual pension cost of \$484,925 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2002, using the entry actual age cost method. Significant actuarial assumptions include (a) a 7.5 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, and (c) .2 percent to 4.0 percent additional projected salary increases depending on age and seniority/merit. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 18 years.

Reserves - As of June 30, 2004, the balances in the plan's reserves are as follows:

Legally required reserves - Employee contributions	\$ 1,926,488
Additional reserves:	
Reserve for retiree benefit payments	25,340,378
Reserve for employer contributions	<u>(68,387)</u>
Total reserves	<u>\$ 27,198,479</u>

Trend Information

	Fiscal Year Ended June 30		
	2002	2003	2004
Annual pension cost (APC)	\$ 428,067	\$ 387,491	\$ 484,925
Percent of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

As of June 30, 2004, \$119,789 of the pension contribution was in accounts payable. Of that amount, \$98,767 was paid in August 2004, while \$21,022 remains unpaid as of the date of this report.

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2004

Note 9 - Defined Contribution Pension Plan

The City established a defined contribution pension plan under Section 401(a) of the Internal Revenue Code. The plan was approved by the police officers in October 1998 and firefighters in December 1998 and covers all police officer and fire fighter members hired on or after January 1, 1999. The general employees approved the plan in August 1999; the plan covers all members hired on or after September 1, 1999.

In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the City of River Rouge through collective bargaining agreements, the City and employees contribute a percentage of employees' earnings as follows:

	Employer Contribution	Employee Contribution
Police	9%	5%
Fire	9%	5%
General	9%	5%

The employee contribution percentages noted above represent the minimum required contribution. Employees are permitted to contribute additional amounts up to the maximum allowed by law.

In accordance with the above requirements, the City expensed \$58,896 during the current year as follows:

	Employer Contribution
Police	\$ 9,424
Fire	25,325
General	24,147
Total	<u>\$ 58,896</u>

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2004

Note 10 - Postemployment Benefits

The City provides health care benefits to all full-time employees upon retirement in accordance with labor contracts. Currently, 204 retirees or surviving spouses are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participants. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. During the year ended June 30, 2004, the amount paid for postemployment health care benefits approximated \$850,000.

Note 11 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City purchased commercial insurance for property loss claims and participated in the Michigan Municipal League (risk pool) for claims relating to workers' compensation claims prior to June 30, 1991. The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The City was uninsured for hospitalization, general liability, and workers' compensation claims for the period from June 30, 1991 to December 1, 1995. From December 1, 1995 through December 1, 2001, the City participated in the Michigan Municipal League for workers' compensation, general liability, and property loss. Effective December 1, 2001, only workers' compensation is covered by the League.

On December 1, 2001, the City joined the Michigan Municipal Risk Management Authority for general liability and property loss coverage. This risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City.

The City estimates the liability for hospitalization, workers' compensation, and general liability claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported.

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2004

Note 11 - Risk Management (Continued)

These estimates are recorded in the General Long-term Debt Account Group and the General Fund. Changes in the estimated liability were as follows:

	Hospitalization	General Liability
Estimated liability - July 1, 2002	\$ 350,000	\$ 159,695
Estimated claims incurred - Including changes in estimates	2,189,644	59,516
Claim payments	(2,079,644)	(41,516)
Estimated liability - June 30, 2003	460,000	177,695
Estimated claims incurred - Including changes in estimates	2,492,796	309,305
Claim payments	(2,576,546)	(152,000)
Estimated liability - June 30, 2004	<u>\$ 376,250</u>	<u>\$ 335,000</u>

These liabilities are recorded in the fund and account group as follows:

	Hospitalization	General Liability
General Fund	\$ 350,000	\$ -
General Long-term Debt Account Group	<u>26,250</u>	<u>335,000</u>
Total	<u>\$ 376,250</u>	<u>\$ 335,000</u>

Note 12 - Contingencies

Lawsuits and Asserted Claims

The City is a defendant in several lawsuits and asserted claims. A provision of \$335,000 has been made in the General Long-term Debt Account Group for the estimated liability for certain of these lawsuits (see also Note 11). Management and legal counsel believe the City's ultimate exposure with respect to the remaining actions is not determinable. No provision has been made in the accompanying financial statements for potential liabilities, if any, which may arise from these remaining suits and asserted claims.

Note 12 - Contingencies (Continued)

Property Tax Appeal

In March 2002, the City's largest taxpayer, National Steel - Great Lakes Division, filed Chapter 11 bankruptcy and was ultimately sold in 2002 to U.S. Steel Corporation. U.S. Steel Corporation has filed a petition with the tax tribunal requesting a reduction in their assessed and taxable valuation for the December 2002 and 2003 tax years (affecting the City's July 2003 through June 2004 fiscal year) based on the purchase price paid in the bankruptcy sale. U.S. Steel Corporation is requesting a reduction of approximately 60 percent from the value set by the City. The City believes their valuation is correct and is fighting the appeal. If U.S. Steel Corporation is successful, the City would have refund obligations from the General, Refuse, and Library Funds totaling approximately \$1,561,000 and the Enterprise Fund would have refunds related to the CSO and EPA judgment levies totaling approximately \$1,187,000 each year. The case is still in the discovery stages and no amounts have been recorded in the financial statements at June 30, 2004.

Note 13 - Commitment

In August 1995, the City contracted with Wayne County to manage all aspects of the construction of a CSO basin. The agreement called for the City to turn over all bond, grant, and State Revolving Fund Loan proceeds to the County sufficient to cover all costs. During 2002, the City was notified by Wayne County that all funds originally remitted by the City had been disbursed and approximately \$6,000,000 in additional funds would be needed to complete the City's requirements under the original court order noted above. In July 2003, the City reached a settlement agreement with Wayne County and the primary contractor. In the settlement agreement, Wayne County agreed to provide the City with several grants to offset the costs of the remaining projects. The settlement also called for the contractor to pay the City \$355,000 to be used for sewer related projects. This amount is recorded as nonoperating income in the Enterprise Fund at June 30, 2004. The three remaining items that remain unresolved in the original court order are as follows:

1. A 60-inch relief sewer at the Coolidge viaduct was required under the original order. Wayne County, as the project manager, determined this sewer was not necessary. The Michigan Department of Environmental Quality (MDEQ) has determined this sewer may still be required. The County has obtained a grant to fund a water sampling study to prove to MDEQ that construction of this sewer is no longer necessary since the construction of the CSO basin. The total cost of the study is approximately \$290,000, of which approximately \$255,000 will be covered by the grant. The City has expended approximately \$100,000 through June 30, 2004. If it is determined this sewer is necessary, the estimated cost of \$4,000,000 would have to be paid by the City's Enterprise Fund. No funds are available currently for this project and no amounts have been recorded in the financial statements at June 30, 2004.
2. MDEQ is requiring the City to have an alternate power source to power all five motors at the CSO basin. The City currently has sufficient power sources to power two of the motors. Wayne County and the City are working with MDEQ and the court to resolve this issue. If the City is required to have an alternate power source for all five motors, the additional annual operating cost to the Enterprise Fund is estimated at \$500,000.
3. MDEQ required the repair of a 66-inch sewer on Dwight Street. The City signed a contract with a vendor in June 2004 totaling \$1,050,000. Wayne County has agreed to provide the City a grant through the National Wet Weather Demonstration Grant program totaling \$722,500. The balance of the contract will be paid from proceeds received from the CSO lawsuit noted above. Work on this project began in July 2004.

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2004

Note 14 - Contributed Capital

The following is an analysis of contributed capital by source:

	Balance July 1, 2003	Current Year Additions and Adjustments	Balance June 30, 2004
Federal grants	\$ 13,316,163	\$ -	\$ 13,316,163
Other	<u>168,179</u>	<u>-</u>	<u>168,179</u>
Total	13,484,342	-	13,484,342
Depreciation charged to contributed capital	<u>(264,345)</u>	<u>(266,323)</u>	<u>(530,668)</u>
Net contributed capital	<u>\$ 13,219,997</u>	<u>\$ (266,323)</u>	<u>\$ 12,953,674</u>

Note 15 - Designated and Reserved Fund Balances/Retained Earnings

Fund balances and retained earnings have been reserved for the following purposes:

	General Fund	Special Revenue Funds	Trust and Agency Fund	Component Units
Reserved for prepaid expenditures	\$ 406,286	\$ -	\$ -	\$ -
Reserved for noncurrent receivables	-	-	-	57,346
Reserved for noncurrent interfund receivable	651,900	1,048,757	-	111,558
Reserved for pension benefits	<u>-</u>	<u>-</u>	<u>39,619,870</u>	<u>-</u>
Total	<u>\$ 1,058,186</u>	<u>\$ 1,048,757</u>	<u>\$ 39,619,870</u>	<u>\$ 168,904</u>

City of River Rouge, Michigan

Notes to Financial Statements June 30, 2004

Note 16 - Construction Code Fees

The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall at July 1, 2003		\$ (314,485)
Current year building permit revenue		196,009
Related expenses:		
Direct costs	\$	289,990
Estimated indirect costs		<u>99,000</u>
Total construction code expenses		<u>388,990</u>
Cumulative shortfall at June 30, 2004		<u><u>\$ (507,466)</u></u>

Note 17 - Going Concern/Management's Plans

As a result of recurring operating deficits and a significant unreserved, undesignated fund deficit in the General Fund, the City is preparing a deficit reduction plan. The plan will include a continuing a City-wide hiring freeze, staff reductions, possible early out incentives for employees, sale of City property, and renegotiation of employment contracts. The City has implemented increases in fees charged for City services and, effective July 1, 2004, created a special assessment district for police and fire homeland security protection that will generate approximately \$1,000,000 annually.

Management expects the deficit to continue through the year ending June 30, 2006. The cost savings noted above are partially offset by substantial reductions in state-shared revenues and increases in employee benefit costs. Management believes the cost-cutting and additional plans noted above should result in the elimination of the General Fund deficit over the next several years, subject to the ultimate effect of the property tax appeal contingency in Note 12.

Additional Information

City of River Rouge, Michigan

Retirement System Required Supplementary Information Policemen and Firemen Retirement System Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
06/30/97	\$ 25,573,216	\$ 27,580,407	\$ 2,007,191	92.7	\$ 2,756,785	72.8
06/30/98	28,282,492	27,482,273	(800,219)	102.9	2,685,729	(29.8)
06/30/99	30,975,123	28,118,267	(2,856,856)	110.2	3,005,802	(95.1)
06/30/00	32,663,571	29,370,588	(3,292,983)	111.2	3,094,560	(106.4)
06/30/01	33,089,914	30,007,692	(3,082,222)	110.3	3,250,571	(94.8)
06/30/02	31,644,156	35,068,838	3,424,682	90.2	2,801,663	122.2
06/30/03	29,384,527	36,177,859	6,793,332	81.2	2,652,137	256.1

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1998	\$ 799,425	100
1999	787,203	100
2000	673,440	100
2001	524,143	100
2002	428,067	100
2003	387,491	100
2004	484,925	100

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2003, the latest actuarial valuation date, follows:

Actuarial cost method	Aggregate
Asset valuation method	Four-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases *	4.7%-8.5%
*Includes inflation at	4.5%
Cost of living adjustments	None

City of River Rouge, Michigan

Retirement System Required Supplementary Information General Employees' Retirement System Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
06/30/97	\$ 13,684,781	\$ 20,512,520	\$ 6,827,739	66.7	\$ 2,098,141	325.4
06/30/98	14,884,205	20,242,772	5,358,567	73.5	1,981,738	270.4
06/30/99	15,964,764	20,356,410	4,391,646	78.4	1,731,438	253.6
06/30/00	16,111,076	20,918,580	4,807,504	77.0	1,786,409	269.1
06/30/01	16,009,970	20,666,344	4,656,374	77.5	1,814,229	256.7
06/30/02	15,194,970	21,228,089	6,033,119	71.6	1,862,030	324.0
06/30/03	13,989,089	21,197,113	7,208,024	66.0	1,898,470	379.7

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1998	\$ 666,156	100
1999	599,428	100
2000	582,368	100
2001	521,510	100
2002	590,228	100
2003	624,012	100
2004	813,219	100

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2003, the latest actuarial valuation date, follows:

Actuarial cost method	Entry age
Amortization method	Level percent, closed
Remaining amortization period	13 years
Asset valuation method	Four-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases*	5.7%-9.5%
*Includes inflation at	5.5%
Cost of living adjustments	None

City of River Rouge, Michigan

General Fund Schedule of Expenditures - Budget and Actual Year Ended June 30, 2004

	Prior Year Actual	Current Year		Variance Favorable (Unfavorable)
		Budget	Actual	
General Government				
Legislative	\$ 51,000	\$ 51,000	\$ 50,875	\$ 125
26th District Court	296,031	292,222	297,978	(5,756)
Executive	166,126	160,690	164,534	(3,844)
Elections	41,450	1,350	1,987	(637)
Assessment	92,520	86,466	84,589	1,877
City attorney and legal claims	952,081	850,284	903,595	(53,311)
City Clerk and photostating	114,786	114,347	126,879	(12,532)
Personnel and purchasing	145,048	162,581	169,334	(6,753)
City Treasurer	117,314	135,139	129,035	6,104
Data processing	10,062	10,556	10,556	-
Building maintenance	455,982	602,723	623,540	(20,817)
Total general government	2,442,400	2,467,358	2,562,902	(95,544)
Public Safety				
Police department	2,346,853	2,330,625	2,426,315	(95,690)
Fire department	1,596,036	1,553,879	1,634,455	(80,576)
Total public safety	3,942,889	3,884,504	4,060,770	(176,266)
Public Services				
Building department	264,770	273,481	289,990	(16,509)
Department of Public Works	629,926	724,754	773,723	(48,969)
Neighborhood improvement program	206,121	127,000	127,744	(744)
Senior Center and City Planner	184,465	175,696	180,072	(4,376)
Total public services	1,285,282	1,300,931	1,371,529	(70,598)
Street Lighting	223,184	231,225	230,825	400
Culture and Recreation	263,210	305,712	321,552	(15,840)
Other Functions				
General functions and other	447,000	405,643	258,202	147,441
Insurance	2,829,026	3,415,577	3,613,997	(198,420)
Pension programs	970,681	1,165,200	1,184,756	(19,556)
Direct employee fringe costs	226,308	246,435	243,292	3,143
Total other functions	4,473,015	5,232,855	5,300,247	(67,392)
Debt Service	1,132,222	-	-	-
Transfers to Other Funds	2,633,681	383,070	48,321	334,749
Transfers to Component Units	68,631	67,450	67,449	1
Total expenditures	<u>\$ 16,464,514</u>	<u>\$ 13,873,105</u>	<u>\$ 13,963,595</u>	<u>\$ (90,490)</u>

City of River Rouge, Michigan

	Major Highway	Local Highway
Assets		
Receivables:		
Due from State of Michigan	\$ 67,511	\$ 25,452
Due from Wayne County	-	-
Due from other funds	-	30,070
Total assets	<u><u>\$ 67,511</u></u>	<u><u>\$ 55,522</u></u>
Liabilities and Fund Balances (Deficit)		
Liabilities		
Vouchers payable	\$ 37,441	\$ 18,693
Due to other funds	30,070	36,829
Deferred revenue	-	-
Total liabilities	67,511	55,522
Fund Balances (Deficit)		
Reserved	-	-
Unreserved - Undesignated	-	-
Total fund balances (deficit)	-	-
Total liabilities and fund balances (deficit)	<u><u>\$ 67,511</u></u>	<u><u>\$ 55,522</u></u>

**Special Revenue Funds
Combining Balance Sheet
June 30, 2004**

Refuse	Drug Enforcement	Library	Community Development Block Grant	Total
\$ -	\$ -	\$ -	\$ -	\$ 92,963
-	-	-	210,918	210,918
<u>669,560</u>	<u>160,198</u>	<u>218,999</u>	<u>-</u>	<u>1,078,827</u>
<u>\$ 669,560</u>	<u>\$ 160,198</u>	<u>\$ 218,999</u>	<u>\$ 210,918</u>	<u>\$ 1,382,708</u>
\$ 118,717	\$ 19,253	\$ 106,857	\$ -	\$ 300,961
-	-	-	210,918	277,817
<u>-</u>	<u>-</u>	<u>-</u>	<u>237,952</u>	<u>237,952</u>
118,717	19,253	106,857	448,870	816,730
669,560	160,198	218,999	-	1,048,757
<u>(118,717)</u>	<u>(19,253)</u>	<u>(106,857)</u>	<u>(237,952)</u>	<u>(482,779)</u>
<u>550,843</u>	<u>140,945</u>	<u>112,142</u>	<u>(237,952)</u>	<u>565,978</u>
<u>\$ 669,560</u>	<u>\$ 160,198</u>	<u>\$ 218,999</u>	<u>\$ 210,918</u>	<u>\$ 1,382,708</u>

City of River Rouge, Michigan

	Major Highway	Local Highway
Revenue		
Property taxes	\$ -	\$ -
Federal grant	-	-
State of Michigan	427,113	149,330
Interest income	478	107
Other revenue	-	-
Total revenue	427,591	149,437
Expenditures		
Refuse charges	-	-
Street maintenance and snow removal	293,708	260,165
Administration	39,823	14,933
Repairs and maintenance	21,340	11,044
Drug enforcement	-	-
Library	-	-
Home program	-	-
Community development expenditures	-	-
Total expenditures	354,871	286,142
Excess of Revenue Over (Under) Expenditures	72,720	(136,705)
Other Financing Sources (Uses)		
Operating transfers in	5,299	136,705
Operating transfers out	(99,558)	-
Total other financing sources (uses)	(94,259)	136,705
Net Change in Fund Balances (Deficit)	(21,539)	-
Fund Balances (Deficit) - July 1, 2003	21,539	-
Fund Balances (Deficit) - June 30, 2004	<u>\$ -</u>	<u>\$ -</u>

Special Revenue Funds
Combining Statement of Revenue,
Expenditures, and Changes in Fund Balances (Deficit)
Year Ended June 30, 2004

Refuse	Drug Enforcement	Library	Community Development Block Grant	Total
\$ 1,182,815	\$ -	\$ 236,563	\$ -	\$ 1,419,378
-	111,332	-	379,865	491,197
-	-	-	-	576,443
7,068	1,107	2,318	-	11,078
-	41,704	37,330	42,925	121,959
1,189,883	154,143	276,211	422,790	2,620,055
1,037,532	-	-	-	1,037,532
-	-	-	-	553,873
-	-	-	21,529	76,285
-	-	-	-	32,384
-	87,428	-	-	87,428
-	-	253,319	-	253,319
-	-	-	238,026	238,026
-	-	-	323,505	323,505
1,037,532	87,428	253,319	583,060	2,602,352
152,351	66,715	22,892	(160,270)	17,703
-	-	-	5,875	147,879
-	-	-	-	(99,558)
-	-	-	5,875	48,321
152,351	66,715	22,892	(154,395)	66,024
398,492	74,230	89,250	(83,557)	499,954
<u>\$ 550,843</u>	<u>\$ 140,945</u>	<u>\$ 112,142</u>	<u>\$ (237,952)</u>	<u>\$ 565,978</u>

City of River Rouge, Michigan

Trust and Agency Funds Combining Balance Sheet June 30, 2004

	Agency Fund - 26th District Court Division I	Trust Funds - Retirement Systems	Total
Assets			
Cash and cash equivalents	\$ 81,541	\$ 1,873,076	\$ 1,954,617
Marketable securities	-	37,243,620	37,243,620
Receivables:			
Due from other funds	-	462,570	462,570
Other	-	93,283	93,283
Total assets	<u>\$ 81,541</u>	<u>\$ 39,672,549</u>	<u>\$ 39,754,090</u>
Liabilities and Fund Balances			
Liabilities			
Due to other governmental units	\$ 9,376	\$ -	\$ 9,376
Due to other funds	26,834	-	26,834
Deposits and other liabilities	45,331	52,679	98,010
Total liabilities	81,541	52,679	134,220
Fund Balances - Reserved for retirement funds	-	39,619,870	39,619,870
Total liabilities and fund balances	<u>\$ 81,541</u>	<u>\$ 39,672,549</u>	<u>\$ 39,754,090</u>

City of River Rouge, Michigan

Trust Funds Pension Retirement Systems Combining Balance Sheet June 30, 2004

	General Employees' Retirement System	Policemen and Firemen Retirement System	Total
Assets			
Cash and cash equivalents	\$ 409,368	\$ 1,463,708	\$ 1,873,076
Marketable securities	11,677,558	25,566,062	37,243,620
Receivables:			
Due from other funds	342,780	119,790	462,570
Other	44,364	48,919	93,283
Total assets	<u>\$ 12,474,070</u>	<u>\$ 27,198,479</u>	<u>\$ 39,672,549</u>
Liabilities and Fund Balances			
Liabilities - Accrued and other liabilities	\$ 52,679	\$ -	\$ 52,679
Fund Balances - Reserved for retirement funds	<u>12,421,391</u>	<u>27,198,479</u>	<u>39,619,870</u>
Total liabilities and fund balances	<u>\$ 12,474,070</u>	<u>\$ 27,198,479</u>	<u>\$ 39,672,549</u>

City of River Rouge, Michigan

Trust Funds - Pension Retirement Systems Combining Statement of Changes in Plan Net Assets Year Ended June 30, 2004

	General Employees' Retirement System	Policemen and Firemen Retirement System	Total
Additions			
Investment income:			
Interest and dividends	\$ 324,858	\$ 660,500	\$ 985,358
Net appreciation in fair value of investments	1,089,501	3,424,282	4,513,783
Mortgage repayments and other	3,711	38,707	42,418
Net investment income	1,418,070	4,123,489	5,541,559
Contributions:			
Employer	813,219	484,925	1,298,144
Employees	109,460	146,051	255,511
Total additions	2,340,749	4,754,465	7,095,214
Deductions			
Benefit payments	1,898,072	2,811,485	4,709,557
Administrative expenses	120,829	297,003	417,832
Total deductions	2,018,901	3,108,488	5,127,389
Net Increase in Net Assets Held in Trust for Pension Benefits	321,848	1,645,977	1,967,825
Net Assets Held in Trust for Pension Benefits			
Beginning of year	12,099,543	25,552,502	37,652,045
End of year	<u>\$ 12,421,391</u>	<u>\$ 27,198,479</u>	<u>\$ 39,619,870</u>

City of River Rouge, Michigan

Schedule of Bonded Indebtedness June 30, 2004

Description	Interest	Date of Maturity	Amount of	Principal Outstanding	
	Rate		Annual	June 30	
	(Percent)		Maturity	2004	2003
State Revolving Fund Loan - Downriver					
Date of issue - July 1996 (3 issues)					
Amount of issue - \$2,193,579					
	2.25	10/01/03	\$ 96,947	\$ -	\$ 96,947
	2.25	10/01/04	98,426	98,426	98,426
	2.25	10/01/05	100,647	100,647	100,647
	2.25	10/01/06	102,841	102,841	102,841
	2.25	10/01/07	105,293	105,293	105,293
	2.25	10/01/08	107,744	107,744	107,744
	2.25	10/01/09	109,964	109,964	109,964
	2.25	10/01/10	112,623	112,623	112,623
	2.25	10/01/11	115,306	115,306	115,306
	2.25	10/01/12	117,734	117,734	117,734
	2.25	10/01/13	120,574	120,574	120,574
	2.25	10/01/14	123,052	123,052	123,052
	2.25	10/01/15	126,125	126,125	126,125
	2.25	10/01/16	128,574	128,574	128,574
	2.25	10/01/17	130,914	130,914	130,914
	2.25	10/01/18	125,771	125,771	125,771
Total				1,725,588	1,822,535

City of River Rouge, Michigan

Schedule of Bonded Indebtedness (Continued) June 30, 2004

Description	Interest	Date of Maturity	Amount of	Principal Outstanding	
	Rate		Annual	June 30	
	(Percent)		Maturity	2004	2003
State Revolving Fund Loan - Downriver (Continued)					
Date of issue - July 1994 (2 issues)					
Amount of issue - \$753,692					
	2.00	10/01/03	\$ 35,565	\$ -	\$ 35,565
	2.00	10/01/04	36,041	36,041	36,041
	2.00	10/01/05	37,226	37,226	37,226
	2.00	10/01/06	37,701	37,701	37,701
	2.00	10/01/07	38,649	38,649	38,649
	2.00	10/01/08	39,598	39,598	39,598
	2.00	10/01/09	40,546	40,546	40,546
	2.00	10/01/10	41,494	41,494	41,494
	2.00	10/01/11	42,206	42,206	42,206
	2.00	10/01/12	43,391	43,391	43,391
	2.00	10/01/13	44,340	44,340	44,340
	2.00	10/01/14	45,289	45,289	45,289
	2.00	10/01/15	41,031	41,031	41,031
Total				487,512	523,077

City of River Rouge, Michigan

Schedule of Bonded Indebtedness (Continued) June 30, 2004

Description	Interest	Date of Maturity	Amount of	Principal Outstanding	
	Rate		Annual	June 30	
	(Percent)		Maturity	2004	2003
State Revolving Fund Loan - Downriver (Continued)					
Date of issue - July 1997 (2 issues)					
Amount of issue - \$222,750					
	2.25	10/01/03	\$ 24,674	\$ -	\$ 24,674
	2.25	10/01/04	9,784	9,784	9,784
	2.25	10/01/05	10,064	10,064	10,064
	2.25	10/01/06	10,340	10,340	10,340
	2.25	10/01/07	10,620	10,620	10,620
	2.25	10/01/08	10,899	10,899	10,899
	2.25	10/01/09	10,937	10,937	10,937
	2.25	10/01/10	11,461	11,461	11,461
	2.25	10/01/11	11,503	11,503	11,503
	2.25	10/01/12	11,788	11,788	11,788
	2.25	10/01/13	12,068	12,068	12,068
	2.25	10/01/14	12,598	12,598	12,598
	2.25	10/01/15	12,643	12,643	12,643
	2.25	10/01/16	12,928	12,928	12,928
	2.25	10/01/17	13,217	13,217	13,217
	2.25	10/01/18	13,512	13,512	13,512
	2.25	10/01/19	2,227	2,227	2,227
	2.25	10/01/20	2,281	2,281	2,281
Total				178,870	203,544

City of River Rouge, Michigan

Schedule of Bonded Indebtedness (Continued) June 30, 2004

Description	Interest	Date of Maturity	Amount of	Principal Outstanding	
	Rate		Annual	June 30	
	(Percent)		Maturity	2004	2003
State Revolving Fund Loan - Downriver (Continued)					
Date of issue - July 1998 (3 issues)					
Amount of issue - \$512,365					
	2.25	10/01/03	\$ 21,921	\$ -	\$ 21,921
	2.25	10/01/04	22,351	22,351	22,351
	2.25	10/01/05	22,996	22,996	22,996
	2.25	10/01/06	23,425	23,425	23,425
	2.25	10/01/07	24,069	24,069	24,069
	2.25	10/01/08	24,501	24,501	24,501
	2.25	10/01/09	25,146	25,146	25,146
	2.25	10/01/10	25,577	25,577	25,577
	2.25	10/01/11	26,220	26,220	26,220
	2.25	10/01/12	26,866	26,866	26,866
	2.25	10/01/13	27,511	27,511	27,511
	2.25	10/01/14	28,155	28,155	28,155
	2.25	10/01/15	28,800	28,800	28,800
	2.25	10/01/16	29,445	29,445	29,445
	2.25	10/01/17	30,092	30,092	30,092
	2.25	10/01/18	30,737	30,737	30,737
	2.25	10/01/19	31,384	31,384	31,384
	2.25	10/01/20	565	565	565
Total				427,840	449,761

City of River Rouge, Michigan

Schedule of Bonded Indebtedness (Continued) June 30, 2004

Description	Interest	Date of Maturity	Amount of	Principal Outstanding	
	Rate		Annual	June 30	
	(Percent)		Maturity	2004	2003
State Revolving Fund Loan - Downriver (Continued)					
Date of issue - July 1999 (2 issues)					
Amount of issue - \$246,649					
	2.25	4/01/04	\$ 10,300	\$ -	\$ 10,300
	2.25	4/01/05	10,438	10,438	10,438
	2.25	4/01/06	10,675	10,675	10,675
	2.25	4/01/07	10,912	10,912	10,912
	2.25	4/01/08	11,149	11,149	11,149
	2.25	4/01/09	11,385	11,385	11,385
	2.25	4/01/10	11,622	11,622	11,622
	2.25	4/01/11	12,145	12,145	12,145
	2.25	4/01/12	12,382	12,382	12,382
	2.25	4/01/13	12,619	12,619	12,619
	2.25	4/01/14	12,856	12,856	12,856
	2.25	4/01/15	13,330	13,330	13,330
	2.25	4/01/16	13,567	13,567	13,567
	2.25	4/01/17	14,091	14,091	14,091
	2.25	4/01/18	14,328	14,328	14,328
	2.25	4/01/19	14,802	14,802	14,802
	2.25	4/01/20	15,042	15,042	15,042
	2.25	4/01/21	15,163	15,163	15,163
Total				216,506	226,806
Total State Revolving Fund Loans - Downriver				\$ 3,036,316	\$ 3,225,723

City of River Rouge, Michigan

Schedule of Bonded Indebtedness (Continued) June 30, 2004

Description	Interest	Date of Maturity	Amount of	Principal Outstanding	
	Rate		Annual	June 30	
	(Percent)		Maturity	2004	2003
Downriver Sewage Disposal Systems Bonds - Series A and B					
Date of issue - July 1994					
Amount of issue - \$368,751					
	6.31	11/01/03	\$ 6,504	<u>\$ -</u>	<u>\$ 6,504</u>
State of Michigan Revolving Fund Loan - CSO Project					
Date of issue - September 28, 1995					
Amount of issue - \$5,860,000					
	2.25	10/01/03	\$ 260,000	\$ -	\$ 260,000
	2.25	10/01/04	260,000	260,000	260,000
	2.25	10/01/05	270,000	270,000	270,000
	2.25	10/01/06	275,000	275,000	275,000
	2.25	10/01/07	280,000	280,000	280,000
	2.25	10/01/08	285,000	285,000	285,000
	2.25	10/01/09	295,000	295,000	295,000
	2.25	10/01/10	300,000	300,000	300,000
	2.25	10/01/11	310,000	310,000	310,000
	2.25	10/01/12	315,000	315,000	315,000
	2.25	10/01/13	320,000	320,000	320,000
	2.25	10/01/14	330,000	330,000	330,000
	2.25	10/01/15	335,000	335,000	335,000
	2.25	10/01/16	345,000	345,000	345,000
	2.25	10/01/17	350,000	350,000	350,000
	2.25	10/01/18	360,000	<u>360,000</u>	<u>360,000</u>
				4,630,000	4,890,000
		Less amounts not drawn		<u>(48,401)</u>	<u>(48,401)</u>
Total State of Michigan Revolving Fund Loan - CSO Project				\$ 4,581,599	\$ 4,841,599

City of River Rouge, Michigan

Schedule of Bonded Indebtedness (Continued) June 30, 2004

Description	Interest	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
	Rate			June 30	
	(Percent)			2004	2003
Wayne County Local Government Loan Program Revenue Bonds - CSO Project					
Date of issue - November 16, 1995					
Amount of issue - \$16,300,000					
	4.600	11/01/03	\$ 625,000	\$ -	\$ 625,000
	4.700	11/01/04	655,000	655,000	655,000
	4.800	11/01/05	685,000	685,000	685,000
	4.900	11/01/06	720,000	720,000	720,000
	5.000	11/01/07	755,000	755,000	755,000
	5.100	11/01/08	795,000	795,000	795,000
	5.150	11/01/09	835,000	835,000	835,000
	5.250	11/01/10	875,000	875,000	875,000
	5.300	11/01/11	920,000	920,000	920,000
	5.375	11/01/12	970,000	970,000	970,000
	5.375	11/01/13	1,025,000	1,025,000	1,025,000
	5.375	11/01/14	1,080,000	1,080,000	1,080,000
	5.375	11/01/15	1,135,000	1,135,000	1,135,000
	5.375	11/01/16	1,200,000	1,200,000	1,200,000
	5.375	11/01/17	1,260,000	1,260,000	1,260,000
Total Wayne County Local Government Loan Program Revenue Bonds - CSO Project				\$ 12,910,000	\$ 13,535,000

City of River Rouge, Michigan

Schedule of Bonded Indebtedness (Continued) June 30, 2004

Description	Rate	Date of	Amount of	June 30	
	(Percent)	Maturity	Annual Maturity	2004	2003
State of Michigan Fiscal Stabilization Bonds, Series 2002B					
Date of issue - November 1, 2002					
Amount of issue - \$6,805,000					
	2.000	11/01/03	\$ 130,000	\$ -	\$ 130,000
	2.000	11/01/04	130,000	130,000	130,000
	2.000	11/01/05	135,000	135,000	135,000
	2.300	11/01/06	135,000	135,000	135,000
	2.700	11/01/07	140,000	140,000	140,000
	3.000	11/01/08	145,000	145,000	145,000
	3.200	11/01/09	145,000	145,000	145,000
	3.500	11/01/10	150,000	150,000	150,000
	3.600	11/01/11	155,000	155,000	155,000
	3.700	11/01/12	165,000	165,000	165,000
	4.000	11/01/13	170,000	170,000	170,000
	4.000	11/01/14	175,000	175,000	175,000
	4.200	11/01/15	185,000	185,000	185,000
	4.375	11/01/16	190,000	190,000	190,000
	4.500	11/01/17	200,000	200,000	200,000
	4.600	11/01/18	210,000	210,000	210,000
	4.700	11/01/19	215,000	215,000	215,000
	4.750	11/01/20	230,000	230,000	230,000
	5.000	11/01/21	240,000	240,000	240,000
	5.000	11/01/22	250,000	250,000	250,000
	5.000	11/01/23	265,000	265,000	265,000
	5.000	11/01/24	275,000	275,000	275,000
	5.000	11/01/25	290,000	290,000	290,000
	5.000	11/01/26	305,000	305,000	305,000
	5.000	11/01/27	320,000	320,000	320,000
	5.000	11/01/28	335,000	335,000	335,000
	5.000	11/01/29	350,000	350,000	350,000
	5.000	11/01/30	370,000	370,000	370,000
	5.000	11/01/31	390,000	390,000	390,000
	5.000	11/01/32	410,000	410,000	410,000
Total State of Michigan fiscal stabilization bonds				\$ 6,675,000	\$ 6,805,000

OTHER COMMENTS AND RECOMMENDATIONS

December 10, 2004

Honorable Mayor and
Members of the City Council
City of River Rouge
10600 W. Jefferson Ave.
River Rouge, MI 48218-4711

Dear Mayor and Council Members:

In planning and performing our audit of the financial statements of the City of River Rouge for the year ending June 30, 2004, we considered the City's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. The consideration we gave to the internal control structure was not sufficient for us to provide any form of assurance on it. However, we noted certain matters involving the internal control structure and its operation that we consider reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions are significant deficiencies in the design or operation of the internal control structure that have come to our attention and, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with management's assertions inherent in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce, to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, also considered to be material weaknesses as defined above. However, we noted certain reportable conditions that we believe to be material weaknesses and have included them in the following pages labeled *Internal Accounting Controls*. Other reportable conditions, as outlined above, that are not considered material weaknesses, as well as other items we feel warrant your consideration, are included in the section labeled *Other Comments and Recommendations*.

Honorable Mayor and
Members of the City Council
City of River Rouge
December 10, 2004
Page 2

This report is intended solely for the information and the use of the City of River Rouge management and others within the City.

We would like to express our appreciation to the City officials and accounting staff for their assistance and cooperation during the course of our audit. If we can be of additional assistance, or if you have any questions regarding our comments, please do not hesitate to contact us.

Very truly yours,

A handwritten signature in cursive script that reads "Alan C. Young & Assoc.".

Alan C. Young & Associates

Enclosure

INTERNAL ACCOUNTING CONTROLS

General Fund Operating/Fund Deficit

Although the City has implemented significant cost cutting measures during the past three years, the operating deficit in the General Fund for the years ended June 30, 2003 and 2004 was approximately \$3,231,000 and \$2,060,000; the fund deficit in the General Fund for the years ended June 30, 2003 and 2004 was approximately \$1,865,000 and \$1,982,000, respectively. A significant factor for this was the result of deferring approximately \$1,857,000 of property tax revenue from National Steel in 2003, because of their bankruptcy filing and the timing of cash collections. We continue to urge you to make balancing the operating budget an immediate and high priority item. Again, we encourage the City to eliminate all non-essential programs and give immediate consideration to other cost cutting measures, including further reductions in staff levels.

Water and Sewer Fund

Following are comments and recommendations to improve the operations and accounting controls of the Water and Sewer Department:

1. As you are aware, Wayne County obtained a judgment levy against the City to provide the necessary funds to pay the debt service on the CSO basin project. The judgment was necessary because the City's current rate structure was insufficient to cover these costs. Even with the levy covering these costs, the current rate structure remains insufficient to cover operating costs and necessary capital outlays (such as water line replacement). To ensure adequate cash flow City wide, it is critical that the City addresses this issue as soon as possible including the possible affects on water and sewer rates.
2. The City's percentage of water loss (i.e. the water purchased from the City of Detroit, but not sold and/or charged to the City of River Rouge customers) decreased to 19 percent for the year ended June 30, 2004. The water loss for the last 4 years is as follows:

Year ended June 30	Water Loss %
2001	35 %
2002	32 %
2003	36 %
2004	19 %

This year is the first full fiscal year in which new pressure stabilizer valves were in place. The stabilizer valves help to stabilize the pressure in the water lines, leading to fewer main breaks. Fewer main breaks explain the reduction in the water loss. The City should continue to both monitor the loss and implement corrective actions to decrease this loss during the year ended June 30, 2005.

INTERNAL ACCOUNTING CONTROLS

Water and Sewer Fund (Continued)

While a high water loss percentage is not uncommon for communities with a system as old as the River Rouge system, the lost revenue from water loss and the corresponding expense (e.g. sewage costs) must be prevented in order to maintain the economic viability of the water and sewer system.

The City should also periodically review its water loss during the year and follow up immediately on any unusual variances. Further, we suggest that this periodic review be documented, perhaps on a form specifically designed for this purpose, and that procedures be designed to report any unusual variances to the appropriate management personnel.

3. An accounts receivable trial balance should be generated and reconciled to the general ledger control account periodically (at least on a quarterly basis). Currently, the auditors perform the only reconciliation at year-end. As part of this reconciliation, each customer's account receivable balance should be reviewed for unusually large debit or credit balances, which may require further investigation.

Cash Receipt System

A key element of internal control is the appropriate segregation of job responsibilities. The risk of intentional or unintentional error or omissions in the accounting records is reduced to the extent one individual is not involved to a significant degree with the majority of duties in any given area. A second important element of internal control is the establishment of accountability for every transaction as early as possible. A third desired element of internal control is the management review function.

In light of the above key elements of internal control, which really serve as goals for any system of internal control, and also considering the practicalities of the City's situation, we recommend that consideration be given to implementing the following suggestions that will improve overall internal control related to cash receipts:

1. Presently, all of staff in the Treasurer's Department collects cash. In addition, certain of these individuals also update the accounting records for cash receipts as well as make wire transfers for the City. We continue to recommend the City segregate these duties to the extent staff levels permit.
2. The City should also consider assigning someone independent of the Treasurer's office to review the water and sewer and property tax postings to ensure completeness and accuracy.

INTERNAL ACCOUNTING CONTROLS

Property Tax Collections

During the current year, the balance of RESA tax collections, due to the State of Michigan, increased \$1,770,000. As of June 30, 2004, the total outstanding to the State of Michigan is \$4.5 million. We recommend the city remit these taxes as soon as possible.

Fixed Asset Records

The City does not have a formal policy indicating the dollar amount thresholds to be used for recording fixed asset additions. We recommend that the City establish dollar thresholds for the addition of new fixed assets to both the account group and the Water and Sewer Fund.

In connection with the inventory, we suggest that all fixed assets be tagged and given a code to facilitate creating a computer file. Proper planning and coding will allow the City to sort the fixed asset listing in different ways, such as by department, type of equipment or tag number. This capability will facilitate accountability by individuals given the responsibility for specific fixed assets.

Water and Sewer Fund

Following are comments and recommendations to improve the operations and accounting controls of the Water and Sewer Department:

1. Based on discussions with the Acting Finance Director and reviewing customer billings in the prior year audit, it was noted that there are payment agreements with customer's delinquent on their water and sewer bills. The agreements are being authorized by the Water and Sewer Department. Current policy is that agreements can be made for any customer that has a past due water bill. Once a payment agreement is created, the delinquent water bills are not transferred to the tax rolls unless the customer misses two payments. Delinquent water bills should be transferred to the tax rolls for collection yearly, as amounts cannot be transferred to the rolls after three years. By creating payment agreements, the City risks the exposure of not being able to collect on delinquent water bills. We recommend that the City adopt a formal policy related to the creation of payment agreements, which includes specific qualifying criteria.
2. The City should review its procedures for allocation of all expenditures, including payroll to the different departments within the Water and Sewer Fund. EPA mandates require rates to be set based on actual costs for the water and sewer components separately. Proper allocations are essential to ensure that these mandates are met on an annual basis.

INTERNAL ACCOUNTING CONTROLS

Water and Sewer Fund (Continued)

3. Given the significant capital expenditures incurred during the current year and the future debt payments expected in the next few years, monitoring the Water and Sewer Fund expenditures and revenue becomes increasingly important. We strongly urge the City to perform a timely budget analysis, which will aid in cash flow projections and help identify significant budget variances.
4. As mentioned in previous years, the City continues to have a substantial number and amount of unpaid water and sewer bills that eventually are added to the tax rolls. Through discussion with personnel in the Water and Sewer Department, it was determined that the City still does not have a shut off policy for customers that are delinquent on water bills. We would recommend that the City adopt an aggressive shut off policy to encourage timely payments and improve cash flows.
5. The City provides water and sewer service to several City of Ecorse residents that reside on the border between the two cities. During the prior year audit, it was noted that three of these residents had large delinquent water bills. The City has no recourse against these residents other than to shut off their water, as delinquent bills cannot be transferred to the tax rolls for nonresidents. We would recommend that the City include the Ecorse residents in any shut off policy that is adopted to encourage timely payments and improve cash flows.
6. Based on discussions with the Acting Finance Director and the prior year's review of manual customer billings, it was noted that Shell Co. does not submit its quarterly statements of usage to the City on a timely basis, which prevents the City from billing the company regularly. The Water and Sewer Department should follow-up with Shell Co. in a timely manner to obtain a quarterly statement and / or prepare estimated billings to resolve this matter.

Federal Programs

1. While discussing cash management procedures, related to the Community Development Block grant, with the Acting Finance Director, it was noted that requests for reimbursement are not always prepared on a timely basis. Generally, reimbursement requests are submitted at the end of a project, which can lead to a significant time lag between the expenditure and the subsequent reimbursement. Given the current economic condition of the City, the General Fund cannot afford to subsidize the grant programs for any longer than is necessary. We would suggest that requests for reimbursement be completed as quickly as possible.

ACCOUNTING ISSUES

Other Items

1. The City should establish and maintain a detailed summary of all delinquent personal property taxes outstanding, reconcile this summary to the general ledger and continue to aggressively pursue the collection of these receivables.
2. The City should ensure that all annual reports are filed timely. For example, during the current year the F-65 was filed late.
3. The City should expand its existing computer back-up plan to include storing back-up tapes at an off site location to avoid data loss in case of a catastrophic event such as a fire or flood.
4. Based on discussions with the Acting Finance Director and prior year's testing, we noted that activity related to Act 495 Fire Deposits is not accurately recorded in the general ledger. Deposit activity should be maintained in a separate subsidiary ledger, which will allow the City to accurately account for deposits received, balances remitted back to the homeowner and deposits turned over to the City as reimbursement for demolition costs incurred. This subsidiary ledger should be reconciled with the general ledger on an ongoing basis. As the Treasurer's Department receives deposits, it is also important that the related addresses are documented so that refunds can easily be matched with the corresponding deposit. We also suggest retaining copies of receipts and checks used for disbursement.
5. Based on discussions with the Acting Finance Director regarding building bond activity, we noted that an accurate schedule of bond deposits and refunds is not maintained. We recommend that a listing of deposits and refunds be maintained and reconciled to the general ledger. We have provided the Building Department with a schedule to be used for this purpose. In order to appropriately segregate the refundable amounts from the revenue, the Building Department should ensure proper communication to the Treasurer's office, so that the correct accounts can be updated. In addition, the City's listing of outstanding bonds contains old bonds dating back to 1998, which should be forfeited to the City. However, Building Department personnel indicated that the City's building bond ordinance does not allow for old outstanding bonds to be forfeited to the City. We recommend the City investigate and give consideration to changing its building bond ordinance, if necessary, to allow old bonds to be forfeited to the City's General Fund after a period of several years.